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Dear Kris

Exposure Draft 270: Reporting Service Performance Information

CPA Australia is pleased to provide comments in relation to the above Exposure Draft. CPA Australia represents the diverse interests of more than 155,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia commends the Australian Accounting Standards Board (AASB) for its efforts to develop a non-financial reporting solution that seeks to address user information needs in the not-for-profit (NFP) sector. We consider the proposals a significant step in the evolution of reporting. However, we have concerns about the principles surrounding the proposals and believe the approach and details set out in the ED require further development and consideration.

The outreach activities conducted by the AASB as part of its consultations provide some useful insights into stakeholder expectations. We would like to highlight two specific matters arising from the feedback that resonate with our own views for consideration by the AASB.

Firstly, the proposals do not provide a sufficiently detailed discussion about who the users are and how they will benefit from the reporting of service performance information by NFP entities. Many NFP entities have primary objectives other than to generate a profit or return for owners and it is a logical presumption that the information needs of users are likely not to be limited to information on financial performance and position, but also extend to service performance related information.

However, given the variability of activities undertaken by a range of NFP entities that will be affected by the scope of the proposed standard, we suggest the AASB takes an evidence-based approach to establishing user information needs in developing the proposals further. The strength and maturity of the proposals will benefit from a detailed discussion within the proposed standard about the evidence that identifies who the users are and how they are expected to benefit from the reporting of service performance information.

Secondly, we currently do not support the mandatory application of the proposed ED by the NFP sector. We do not believe the proposals adequately identify the users and clarify how they will benefit from the proposals. In addition, both the public and private NFP sectors will face numerous challenges in complying with a mandated standard as proposed.

Within the public sector, there are well-established frameworks for the reporting of service performance that public sector entities apply currently in meeting their obligations to report on service performance. The detailed requirements proposed in the ED are likely to result in additional cost and effort incurred by public sector entities that would have to ensure their current reporting practices are aligned with the proposed requirements in the ED.

We also believe that many private sector NFP entities are likely to face challenges in identifying and reporting the service performance information as proposed. Those private sector NFP entities that already capture the relevant

information for internal or external reporting purposes are unlikely to incur additional cost or effort in reporting on their service performance. However, we believe many private sector NFP entities do not currently capture and report the proposed information and do not have the ability or resources to identify and report relevant information without incurring additional cost and effort. Mandating the reporting of service performance upon entities that will result in additional cost and effort is contrary to deregulation and red-tape reduction being sought for an already overburdened private NFP sector, which we think should not be imposed unless there is adequate evidence that they would add value through the satisfaction of identified user needs.

Our recommendation is that the AASB not pursue mandating application of the proposed standard but issue it as a guide. A non-mandatory guide is still likely to be useful and relevant if there is sufficient demand from users in the NFP sector for service performance information based on the proposals.

The AASB could undertake a post-implementation review between 3-5 years following issue of the proposals as guidance and include consideration of mandatory application at that time.

Should the AASB determine to pursue mandatory application of the proposed Standard, we have set out our comments in our response to specific matter 9, in the attached appendix.

Subject to the general comments we have provided above, we have provided further comments on specific matters in the attached appendix. If you require further information on any of our views expressed in this submission, please contact Ram Subramanian, CPA Australia on 03 9606 9755 or by email at ram.subramanian@cpaustralia.com.au.

Yours sincerely



Dr Eva Tsahuridu
Manager – Accounting Policy

APPENDIX

Specific matters for comment

1. Proposed principles

CPA Australia submits the following suggestions regarding the proposed principles:

- Paragraph BC27 indicates the AASB's conclusion that the overriding principle for reporting service performance information is that the information should be useful for accountability and decision-making purposes. The decision-making objective is well articulated in the *Framework for the Preparation and Presentation of Financial Statements* (CF), however the same cannot be said for the objective of accountability. We suggest the AASB considers providing a more detailed explanation of the objective of accountability within the proposals, and refers to the CF for a detailed explanation of the objective of decision-making. Alternatively, this could be addressed through the research project *Considering NFP Entity Conceptual Framework Issues*.
- Similar to feedback received by the AASB through its outreach activities, feedback we have received also indicates that the performance indicators of outcomes, efficiency and effectiveness are challenging to measure. As a result of these challenges, NFP entities may be unable to comply with the principles that require that the reporting of service performance information should clearly show the extent to which the entity has achieved its service performance objectives, and enable users to assess the efficiency and effectiveness of the entity's service performance. Similarly, NFP entities may also be unable to report service performance information that meets the qualitative characteristics of relevance, understandability, timeliness, comparability and verifiability. Examples of some challenges include:
 - Some outcomes are not easily capable of being subject to quantitative or qualitative measures. Consequently, entities may also not be able to identify the related effectiveness and efficiency measures.
 - NFP entities, particularly those in the private sector, may not have established systems to capture outcome measures. Given the difficulty in measuring some outcomes, entities may find it challenging to establish appropriate systems for this purpose.
 - The service performance for many objectives can occur over multiple reporting periods, with clear outcomes not identifiable, or arising later in the life-cycle of the project(s) undertaken to meet the objectives.

To address the above concerns, we suggest the AASB clarifies the requirements further and provides additional guidance material that enables the reporting of service performance information that meets all the principles and qualitative characteristics stated. As many public sector NFP entities are already preparing service performance reports, it may be worthwhile for the AASB to assess whether these reports meet the proposed principles and qualitative characteristics. This assessment could enable the AASB to develop appropriate principles and qualitative characteristics that result in the reporting of service performance information that meets user needs.

2. Applicability of proposed Standard to NFP entities

In our view the reporting of service performance information is relevant to both the private and public NFP sectors. Most private and public NFP entities have a core purpose that is other than maximising investor returns, and it follows that the user information needs are also likely to be focused around measures beyond financial performance and position. However, as stated in our cover letter above, we suggest the AASB takes an evidence-based approach to establishing user information needs in both the public and private NFP sectors to inform development of the proposals further.

The proposals apply to preparers of General Purpose Financial Statements (GPFS). This suggests that preparers of GPFS applying Reduced Disclosure Requirements (RDR) are also captured by the proposed requirements and we urge the clarification of this in the final document.

3. Applicability of proposed Standard to for-profit entities in the future

CPA Australia believes that the reporting of service performance information should be based on identified user information needs and the development of suitable framework to meet those needs. The development of the Integrated Reporting <IR> Framework aimed at for-profit organisations within global capital markets indicates an evolutionary shift in reporting beyond conventional financial reporting. The development of <IR> and similar reporting solutions indicates an appetite for non-financial information from stakeholders who have until recently largely relied on financial information. The AASB may also wish to consider how the proposals to report service performance may align with the <IR> framework, particularly where entities are already preparing reports based on the <IR> framework.

In considering the application of the proposed reporting of service performance information to for-profit entities, the AASB should ensure that it clearly identifies the expectations and information needs of users in both the NFP and for-profit sectors, and develop reporting solutions that meet those expectations and user information needs.

Within the for-profit sector, social enterprises and other organisations that in addition to a focus on generating a financial return for investors, incorporate objectives aimed at improving social wellbeing. Such entities may consider it appropriate to report service performance information. Once the AASB ensures the proposals are adequately developed to serve the information needs of NFP stakeholders, the AASB could consider piloting its proposals amongst social enterprises and similar entities within the for-profit sector.

4. Applicability of proposed Standard to consolidated financial statements (including Whole of Government and General Government Sector financial statements)

5. Reporting entity for service performance information same as that used for financial statements

CPA Australia does not support the application of the proposed Standard to Whole of Government (WoG) and General Government Sector (GGS) financial statements. Due to the complexities and challenges that are likely to arise at the WoG and GGS levels, we believe the cost of preparing service performance information will exceed the benefits they are likely to provide users and we have not identified any evidence that suggests otherwise.

The significant number of controlled entities with different service performance objectives and measurement criteria are likely to present challenges in measuring and collating the information and presenting it in a meaningful way. Another variable that is likely to contribute to complexity in preparing a report at the WoG or GGS level is changes in objectives that result from a change in government. We believe the reporting of service performance information will be more useful and beneficial at the independent agency or department level, where the objectives are likely to be more easily identifiable and the performance more readily measurable.

6. Location of service performance information

We agree that the draft Standard should not specify the location of service performance information. We agree that service performance information could be provided as part of a report that includes the financial statements or as a separate report. However, we do not agree with the proposal that service performance information could be presented in a variety of different reports as we believe this could increase complexity and reduce usefulness.

7. Reporting service performance information for a different time period to that of the entity's financial statements

We agree with the proposals.

8. Defined terms

We agree with the defined terms as proposed. However, the use of the word society within the definition of "outcomes" and "service performance" suggests a human only focus. As some NFP entities have a non-human focus (e.g. animal welfare) we suggest amending the term to "stakeholders and society". We note this term is also used in the <IR> Framework.

9. Mandatory application of the proposed Standard by NFP entities

Feedback we have received from stakeholders in the private NFP sector indicates that whilst some of the elements (inputs and outputs) are easier to measure, other elements (outcomes, efficiency and effectiveness) can be more challenging to measure and report in a meaningful and useful manner. It is our understanding that many private sector NFP entities will face significant challenges in reporting against some of the more testing elements on a mandatory, annual basis.

Public sector NFP entities will also encounter challenges in the mandatory application of the proposed Standard. Many public sector entities are already required to report on service performance through well-established reporting frameworks. We are concerned that the level of detail required in the proposals could cause additional burden to public sector entities that may have to align their existing reporting practices with the proposed requirements.

There is currently no assurance standard that specifically caters for the assurance of service performance reports. The auditability of the reports on service performance arising from the proposals will depend on the suitability of the chosen performance indicators as criteria for assurance and the subjectivity of the evaluation of service performance. Suitable criteria need to display the characteristics of relevance, completeness, reliability, neutrality and understandability, which may be difficult, particularly for the assurance of performance indicators involving outcomes. Additionally, the lack of sufficiently experienced individuals who can prepare service performance reports and assure service performance reports is something that would also need to be addressed. Any assurance carried out could also be both onerous and expensive due to the variability and qualitative nature of the information being reported in accordance with the proposals.

For the above reasons, we do not support the mandatory application of the proposed Standard. Instead, we recommend issuing the proposals as a guide for application by those who choose to do so. In time and with adequate development of the concepts and criteria based on user needs and the NFP sector's ability to meet those needs, the AASB should consider mandating the reporting of service performance. However, if the AASB intends to mandate the proposed Standard, we suggest the two options below, in order of preference:

- Preference 1 – The AASB mandates the proposals for public sector entities and allows optional application by private sector NFP entities. However, in pursuing this option, we recommend the AASB ensures no additional burden is placed on public sector entities that already report on service performance under existing frameworks.
- Preference 2 - We recommend revising the proposals to remove the detailed reporting requirements and retain a set of high level principles. This will allow existing reporters of service performance to adopt the principles that complement their current practices and frameworks for reporting of service performance. A high level set of principles will also allow new reporters sufficient flexibility to develop service performance reports that suit their individual circumstances.

10. Proposed application date for periods beginning on or after 1 July 2018

We do not support the proposed application date. As stated in our comments above, the proposals require further development in a number of aspects before they can be finalised. If the AASB considers issuing the proposals as non-mandatory guidance, an effective date as proposed may be achievable.